

GOVERNMENT OF ANDHRA PRADESH
A B S T R A C T

Municipal Administration and Urban Development Department – Tax Incremental Financing in Urban Local Bodies as a source of Public financing for Civic infrastructure and other developmental works – Orders – Issued.

MUNICIPAL ADMINISTRATION AND URBAN DEVELOPMENT (UBS) DEPARTMENT

G.O.Ms.No. 79

Dated: 22 .02.2014

Read the following:

1. From C&DMA, Hyderabad Lr.Roc.No.100/13th FC/2010/C&DMA, dated 11.02.2014.
2. From Commissioner, GHMC, Lr. Dated .02.2014
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ORDER:

Effective local government is the cornerstone of democracy. Urban local bodies are expected to deliver services, such as sanitation, roads, water supply, drainage, and street lights. Additionally, citizens are demanding clean environments, aesthetics and relief from traffic congestions, etc. Typically, the cost of large hard infrastructure is often beyond the annual operating revenues of urban local bodies. Most urban local bodies fund some portion or all capital investments through borrowing, which is one of the four sources to pay for capital improvements, other being – exactions (e.g. betterment charges) and impact fees, transfers from the state or central governments, current operating revenues and borrowings. A popular tool used by urban local governments to fund some portion of capital facilities is by borrowing and “Municipal” bonds, sold to investors in a public market, are chief mechanism used by municipalities to finance capital facilities.

2. Nearly, Rs.46,695 crores is required for capital improvements and maintenance works in urban local bodies during 2015-20. While some portion of the deficit may be financed under the 14th Central Finance Commission Grant, it is unlikely that the entire deficit will be met from a single source.

3. The tax increment financing (TIF) is a technique for local urban bodies to finance development activities that uses incremental increase in tax revenue caused by development to finance hard infrastructure improvements for development to occur. The notion is that as property values in TIF areas rise and property tax revenues increase, the local Government uses the growth in property tax revenues to pay off the initial and ongoing economic development expenditures

4. The Commissioner and Director of Municipal Administration, Hyderabad vide reference 1st read above, has suggested Tax Incremental Financing as a viable alternative to finance civic infrastructure and other developmental works in Urban Local Bodies and has submitted proposal for introduction of Tax Incremental Financing in all Urban Local Bodies. The Commissioner, GHMC vide reference 2nd read above, has also supported the proposal of the Commissioner and Director of Municipal Administration, Hyderabad.

5. Government after careful consideration of the proposal of Commissioner and Director of Municipal Administration, Hyderabad, hereby introduce the following model of Tax Incremental Financing (TIF) in all the ULBs as a source of Public financing for Civic infrastructure and other developmental works- drinking water, under ground drainage, storm water drains, water body development, parks, roads, side walls, street lights, bridges and culverts.

- a) The ULB(s) will identify some geographical pockets / areas basing on the need for infrastructure facilities given above. After identifying areas, the ULBs will hold a public consultation along with discussions with Ward Committees, Area Sabhas, public representatives and Citizens about financing of identified projects. Based on the discussions and decisions made in the meetings a Detailed Project Report on Developmental Plan will be prepared in consultation with stake holders.

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- b) Detailed Project Reports will be prepared with an aim to create new infrastructure or upgrade the existing infrastructure by conducting survey of those areas as per the needs of the local area public. The preparation of estimates, procurement, selection of agency, execution of works and payment are as per the rules, procedures and guidelines in vogue.
- c) After identifying the projects, they will be posed to the financing agencies for sanction.
- d) In those areas where projects are taken up under Tax Incremental Financing, the property holders will have to pay Supplemental Property Tax in addition to the normal property tax to meet repayment of loan amount to the financing agency. After completion of repayment of entire loan, the Supplemental Property Tax will be dispensed. The Supplemental Property Tax may be calculated by giving 70% weightage to plot area and 30% weightage to plinth area of the building based on the benefits and values accrued to the property holders based on the assumption that land values will increase.

6. The APUFIDC will be the Nodal Agency to design the TIF and hand-hold the ULBs as ULBs lack the competence to prepare development plans and estimate additional revenue from property tax. Furthermore, the APUFIDC will do a pilot and use the lessons learnt for selection of TIF area, preparation of development plan, cost estimation, projection of additional revenue flows from property tax and the time period for which TIF will be operational.

7. The Commissioner and Director of Municipal Administration, Hyderabad, Commissioner, Greater Hyderabad Municipal Corporation and Managing Director, APUFIDC Ltd., Hyderabad shall take further necessary action in the matter.

8. This order issues with the concurrence of Finance Department vide their U.O. No. 4912/113/A1/Expr.M&F/2014, dated: 22.2.2014.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF ANDHRA PRADESH)

Dr. SAMEER SHARMA
PRINCIPAL SECRETARY TO GOVERNMENT

To

The Commissioner and Director of Municipal Administration, Hyderabad.

The Commissioner, GHMC, GVMC, VMC

The Managing Director, APUFIDC Ltd., Hyderabad

The Mission Director, MEPMA, Hyderabad

The Engineer-in-Chief (PH), Hyderabad

The Director Town and Country Planning

All the ULBs through the CDMA, Hyderabad.

Copy to:

The P.S. to C.S. to Government

The OSD to Hon'ble M(MA)

The P.S. to Principal Secretary to Government (UD)

The P.S. to Principal Secretary to Government (MA)

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//FORWARDED::BY ORDER//

ASSISTANT DIRECTOR